

## SEC Mandates Interactive Data Financial Reporting

*By Jim Brashear*

Last year, the Securities and Exchange Commission (SEC) issued rules that will require most public companies to file financial statements with the SEC in eXtensible Business Reporting Language (known as “XBRL”). Interactive data in XBRL format permits users of financial information to automatically download financial data directly into documents and analytical tools. Companies will include XBRL data in an exhibit to many SEC filings that include financial statements. XBRL exhibits will contain the entire financial statements, footnotes and applicable schedules. Companies also must post the same interactive data on the investor information pages of their public Web sites.

The XBRL disclosure requirements will be phased in over three years. Approximately 500 of the largest public company filers using US GAAP will be subject to the new requirements for fiscal periods ending on or after June 15, 2009. All other large accelerated filers using US Generally Accepted Accounting Principles (GAAP) will be subject to the XBRL requirements for fiscal periods ending on or after June 15, 2010. All remaining filers using U.S. GAAP, and all foreign private issuers using IFRS, will be subject to the XBRL requirements beginning with their first periodic report on Form 10Q, Form 20Q or Form 40F for fiscal periods ending on or after June 15, 2011. Companies may voluntarily make XBRL filings at any time before they are required to do so by the rules.

Companies should begin to review their internal control over financial reporting and their disclosure controls and procedures in order to anticipate the effects that implementing XBRL will have on their existing processes.

### Interactive Data Requirements

The SEC’s new interactive data rules (XBRL rules) were issued on January 30, 2009 and will

be effective on and after April 13, 2009.<sup>1</sup> The new rules will not change any substantive disclosure requirements, and companies must continue to file financial statements in the traditional formats.

### XBRL Means “Interactive Data”

The new XBRL rules support the SEC’s Interactive Data Electronic Applications (IDEA) system,<sup>2</sup> which eventually will replace the SEC’s Electronic Data Gathering, Analysis and Retrieval (EDGAR) system. Interactive data in XBRL format permits users of financial information to automatically download a company’s financial data directly into documents and analytical tools. The XBRL data could be searched and analyzed and it could facilitate comparing financial and business performance across companies, reporting periods and industries. The SEC’s web site links to a sample interactive data viewer.<sup>3</sup>

### Companies Affected

The XBRL rules add a requirement that most public companies must disclose their financial statements in XBRL format. The XBRL requirements will be phased in over three years.<sup>4</sup> Approximately 500 of the largest public company filers using U.S. GAAP will be subject to the new requirements for their fiscal periods ending on or after June 15, 2009. All other large accelerated filers using U.S. GAAP will be subject to the XBRL requirements for their fiscal periods ending on or after June 15, 2010. All remaining filers using U.S. GAAP, and all foreign private issuers using International Financial Reporting Standards (IFRS), will be subject to the XBRL requirements beginning with their first periodic report on Form 10Q, Form 20Q or Form 40F for their fiscal periods ending on or after June 15, 2011.<sup>5</sup> Companies may voluntarily make XBRL filings at any time before they are required to do so by the rules. In the context of a business combination, XBRL filings will be required for the acquiring company but not for the company being acquired.

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## Filings Affected

Companies will include XBRL data in an exhibit when they file registration statements,<sup>6</sup> quarterly and annual reports, and transition reports. XBRL exhibits will also accompany reports on Form 8K or Form 6K that contain certain updated or revised financial statements. XBRL filings will, for the foreseeable future, supplement rather than replace the currently-required EDGAR filings in ASCII and HTML formats.<sup>7</sup>

## Content of XBRL Exhibits

The XBRL exhibit will contain the complete financial statements, footnotes and applicable schedules.<sup>8</sup> The data elements in the XBRL version of the financial statement must be equivalent to the information in the corresponding traditional version of the financial statement. No data element can be changed, deleted or summarized.

XBRL format requires that data elements be “tagged” with XBRL codes. A company preparing financial statements in accordance with U.S. GAAP will use the most recent standard list of XBRL tags that is appropriate for its business.<sup>9</sup> Companies preparing financial statements in accordance with IFRS will use the most recent standard list of tags published by the International Accounting Standards Committee Foundation.

Each standard XBRL tag is associated with a descriptive label, such as “gross profit.” Although XBRL supports custom tags, called “extension tags,” the SEC encourages companies to re-label the standard tags rather than creating extension tags, where the company uses a different description for the standard XBRL data element. For example, the standard list of tags includes “gross profit” but not “gross margin.” A company that describes the excess of revenues over cost of revenues as “gross margin” would apply the standard XBRL tag for “gross profit” to that line item, but change the label for that line item to read “gross margin.”

The first year that a company files its XBRL exhibits, individual footnotes and schedules in the financial statement will be tagged as a block of text. In subsequent years, the company must tag the detailed quantitative disclosures within the

footnotes and schedules. Companies may also voluntarily tag narrative disclosure.

## Timing of XBRL Exhibits

XBRL exhibits generally must be filed with the SEC at the same time that the company submits its ASCII and HTML filings via EDGAR. Each company’s very first XBRL exhibit, however, can be filed as an amendment up to 30 days after the related EDGAR filing. A similar 30-day grace period will also apply for the company’s first filing that is required to have footnotes and schedules tagged in detail. These grace periods do not apply to each type of filing, but only to the very first filing of any type, and the very first filing requiring detailed tagging of schedules and footnotes.

## Web Site Posting of XBRL Data

Each company also must provide the same interactive data on its public web site, if it maintains one. The interactive data should be accessible through the company’s web page normally used for investor information. A link to the XBRL exhibit on the SEC’s web site is not permitted. A company must post the XBRL data on its web site by the end of the calendar day on which it is required to file, or on which it actually files earlier than required, the related ASCII and HTML filings. The information must remain available on the Web site for at least twelve months.

## Consequences of Late Filing or Posting

A company that does not timely file and post the XBRL exhibits will be deemed not current with its Securities Exchange Act reports until those exhibits are filed and posted. Being deemed not current with its Securities Exchange Act reports will mean the company is not eligible to use short-form registration statements and not eligible for the resale exemption safe harbor under Rule 144. Once a company complies with the XBRL submission and posting requirements, it will be deemed to be current and timely in its periodic reports, provided that it previously timely filed its financial statement information in the traditional formats.

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The XBRL rules provide for automatic, temporary relief for unanticipated technical difficulties that prevent timely preparation, submission and posting of XBRL data. A company must, however, submit and post the electronic copy of the information within six business days after the date the XBRL data file was required to be submitted and posted. Companies may also apply in writing for a continuing hardship exemption, if submitting or posting information in the required electronic format would cause undue burden or expense.

### **No Officer Certification or Auditor Attestation**

A company's principal executive officer, principal financial officer and principal accounting officer will not be required to certify XBRL exhibits—but the SEC will monitor whether officer certifications may be required in the future. The XBRL rules do not require a company's independent auditor to attest to interactive data provided in an exhibit or to the related viewable interactive data.<sup>10</sup> Companies are, however, free to voluntarily obtain auditor attestation for interactive data submissions.

### **Liability for XBRL Data**

XBRL data that a company submits within 24 months after it first is required to file XBRL exhibits (but not beyond October 31, 2014) generally will be subject to modified liability under the federal securities laws. Liability is not limited to XBRL data in human-viewable form, but includes failures to properly tag data which result in errors in the human-viewable form. The modified liability under new rule 406T means that XBRL disclosure will be subject to anti-fraud provisions of the federal securities laws,<sup>11</sup> except in connection with a failure to comply with the XBRL tagging requirements that occurs despite a good faith attempt to comply and that is corrected promptly after the company becomes aware of the failure.<sup>12</sup> Promptly means as soon as reasonably practicable under the facts and circumstances. The SEC's rules provide a safe harbor if the correction is made within 24 hours after the company became aware of the need for the correction, or by 9:30 a.m. on the first business day after the company became aware of the need for the correction (whichever is later).

### **Actions for Companies to Consider**

Your company's financial information may already be available in XBRL format because it is being tagged by third-party data aggregators. Increased availability of XBRL data will likely create new ways for investors, analysts and others to retrieve and use your financial information about your company—as well as the financial information of your peers and competitors. Your company may wish to quickly develop XBRL reporting and analysis capabilities, so that you can tag your own data, tell your own story, anticipate questions, and interpret all of the XBRL information in the marketplace.

### **Review Disclosure Controls Processes**

Producing interactive data disclosure is part of your company's disclosure controls and procedures. XBRL reporting will, for most companies, initially mean a new extra step at the end of their current reporting processes to convert their financial statements into XBRL exhibits. Your company should, therefore, begin reviewing your internal control over financial reporting and your disclosure controls and procedures in order to anticipate how implementing XBRL will affect your current processes, personnel and systems.

### **Technical XBRL Implementation**

Companies may use a third-party vendor for technical assistance with the initial or ongoing XBRL submissions. Alternatively, companies may create their own XBRL submissions using commercially available software. Whichever you choose, your company will be responsible for accurate and timely XBRL submissions. Implementing XBRL will require your company to confirm the appropriate standard XBRL tags, and possibly to develop extension tags. Your company should, therefore, consider possible resource constraints and begin XBRL implementation well in advance of the time that you will be required to make XBRL submissions.

### **Integrating XBRL in Enterprise Reporting Systems**

Many of the potential benefits to companies from implementing XBRL will depend on embedding XBRL technology into enterprise reporting

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and other business information systems. Your company may wish to consider the speed, accuracy and other possible advantages of integrating XBRL deeply into your current systems.

## Possible Future Regulation

The SEC's XBRL rulemaking, like the SEC's recent guidance on public company web site disclosure, is an example of technology developments driving regulatory changes. As the marketplace demonstrates the utility of interactive data, and as companies become capable of quickly producing increasing amounts of data, regulators may consider mandating additional interactive disclosure. For example, the SEC said that it is not requiring XBRL tagging of Management's Discussion and Analysis (MD&A) "at this time" but it will continue to consider additional interactive data disclosure.

## Notes

1. Except that Rule 406T of Reg S-T, described below under *Liability for XBRL Data*, will expire October 31, 2014.
2. <http://idea.sec.gov>.
3. <http://216.241.101.197/viewer>.
4. The new rules will not include any investment company that is registered under the Investment Company Act, any "business development company" as defined in that act, or any other entity that reports under the Securities Exchange Act of 1934, as amended (Securities Exchange Act), and

prepares its financial statements in accordance with Article 6 of Regulation S-X.

5. Companies that become subject to SEC reporting requirements and the XBRL rules after the phase in period is completed will be required to submit an XBRL exhibit with their first periodic report on Form 10Q, Form 20Q or Form 40F.
6. Excluding initial public offerings and registration statements that do not include financial statements or registrations statements under the Securities Exchange Act, XBRL exhibits will be required for registration statements only after a price or price range is determined.
7. American Standard Code for Information Interchange (ASCII) and HyperText Markup Language (HTML).
8. Financial statements include the statement of financial position (balance sheet), income statement, statement of comprehensive income, statement of cash flows, and statement of owners' equity, as required by SEC rules.
9. The latest list of XBRL tags published by XBRL US for US GAAP is available at <http://xbrl.us/pages/us-gaap.aspx>.
10. The Public Company Auditing Oversight Board (PCAOB) reportedly is considering clarifying this in its auditing standards.
11. The specified anti-fraud provisions are Section 17(a)(1) of the Securities Act of 1933, as amended, Section 10(b) of the Securities Exchange Act, and Rule 10b-5 under that act, and Section 206(1) of the Investment Advisers Act of 1940.

12. The XBRL data will also be deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act and not otherwise subject to liability under these sections; will be deemed not filed for purposes of Section 18 of the Securities Exchange Act or Section 34(b) of the Investment Company Act and not otherwise subject to liability under these sections; and will be deemed filed for purposes of (and, as a result, benefit from) Rule 103 under Regulation S-T as to electronic transmission errors beyond its control.

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